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FISCAL IMPACT REPORT



SPONSOR: Hobbs DATE TYPED: 01/23/02 HB 19

SHORT TITLE: Technology StartUp Tax Credit Act SB _____

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$1,250.0)	(\$1,350.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 19 enacts the “Technology Startup Tax Credit Act (TSTCA)” to provide a favorable climate for startup technology businesses in New Mexico. In order to qualify businesses must:

- Spend at least 20% of total revenue on research and development (R & D);
- Employ fewer than 50 persons on a full-time basis; and
- Have fiscal year revenue of \$10 million or less.

Additionally the business in question cannot be over 50 percent owned by another business and expenditures made as part of an industrial revenue bond (IRB) project or other tax incentives do not qualify under provisions of the act.

The credit provided by the TSTCA is equal to any gross receipts, compensating, or withholding taxes due to the state.

FISCAL IMPLICATIONS

TRD estimates the annual revenue loss to the general fund at \$1,350.0. TRD notes that according to the 1997 Economic Census of Professional and Technical Services, New Mexico has over 110 research and development companies that employ fewer than 50 employees. Few, if any, of these firms have revenue in excess of \$10 million. Most of the R & D firms with significant gross receipts and fewer than 50 employees are able to deduct a large percentage of gross receipts. Thus they pay very little gross receipts or compensating tax. Withholding amounts tend to be small for most of these firms as well. Consequently, this bill is not likely to encourage the typical high technology startup company at a time when the tax burden is small.

ADMINISTRATIVE IMPLICATIONS

TRD reports that it will be required to develop forms, instructions, and taxpayer seminar materials.

TECHNICAL ISSUES

TRD states that HB 19 does not require that a qualified business be newly formed or new to New Mexico. Therefore, existing technology firms would qualify for the technology startup credit. Thus, some of the tax expenditure will benefit existing businesses that may require no additional incentive to operate and expand in New Mexico.

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